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ABSTRACT

An important first step in addressing the issue of obtaining a better fit between unemployment insurance (UI) and retraining was taken in 1970 when the federal government enacted a provision permitting workers to enroll in training without denial of benefits due to application of the work test. Little was done, however, to pursue state compliance with the new provision or to encourage states to view facilitating training as a mission of UI. Even before 1970, Hawaii, West Virginia, and Massachusetts had provisions designed to make it easier for clients to avail themselves of retraining opportunities. Since the 1970 amendments, an additional six states have either revised or expanded their efforts in this area. One problem that persists is a lack of familiarity with the 1970 provisions. Only 23 of the states contacted in a survey of 30 UI officials in the states and the District of Columbia, Puerto Rico, and the Virgin Islands were aware of the 1970 legislation. Although some strategies for improving current retraining provisions would require substantial legislative changes, a good beginning could be made if states would only reassess their programs in light of the 1970 retraining provisions. Then, after individual states decide how far they want to support retraining initiatives, they can begin developing a screening process, undertake labor market assessment procedures to identify dislocated workers early in the UI claims process, and make appropriate referrals. (MN)

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A BETTER FIT BETWEEN UNEMPLOYMENT INSURANCE AND RETRAINING

BY

PAUL E. BARTON

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PREFACE

I have had a continuing interest in the relationship of unemployment insurance and retraining throughout my career. It began when I assumed responsibilities in this area in 1957 in the U.S. Office of Management and Budget (then the U.S. Bureau of the Budget) and saw unemployment insurance claims lines snaking for blocks at the height of the 1958 recession. It continued during my service with the Department of Labor, and with the National Institute for Work and Learning. In one way or another my interest in the retraining aspect was furthered and sustained by three Secretaries of Labor, Willard Wirtz, George Shultz, and John Dunlop. All three were committed to responsible modifications in unemployment insurance law and administration that would improve workers' skills as well as feed their families. Neither they nor any of my associates along the way bear any responsibility for the inadequacy of my education in this area of public policy, or for any inadequacies in what is here reported or recommended.

In writing this I am indebted to a large number of state unemployment insurance, economic development, and vocational education officials who responded so generously to my requests. The project, from which this small volume arises, was supported by Harvard University's Wertheim Fellowship in Industrial Relations.

Paul E. Barton
Princeton, New Jersey

FOREWORD

From its beginning, fifty years ago, the unemployment insurance system in this country has been directed almost exclusively to compensating workers for some of the losses resulting from temporary layoffs. The underlying assumption has been that, when the economy picks up again, the laid off employees will return to their old jobs.

However, more persons are now remaining unemployed for longer periods of time and are exhausting entitlement to UI due to jobs lost because of changing technology, foreign competition, and other shifts in the economy. In 1975, an average of 76 percent of the unemployed received unemployment insurance; in 1985, less than one third of those out of work received benefits.

This shift in the characteristics of unemployment clearly creates a new imperative. Tiding displaced workers over a few weeks isn't enough. A lot of them are going to have to be retrained in new skills so that they can find and fill new and different jobs. If they aren't, the consequences will be both human debilitation and an increasing drain on the economy.

Paul Barton has been telling us this for 30 years, making his characteristic soft spoken suggestions about the changes and extensions of the unemployment insurance program that are called for. His paper on A Better Fit Between Unemployment Insurance and Retraining pushes the point further. Amounting in substance to both an indictment and a bill of particulars, it is so low key that there is danger of its message being lost.

Barton has taken the trouble to find out what the states have done as a result of the 1970 change in the federal law designed to encourage supplementing unemployment insurance with retraining. He reports the results of his survey with professional constraint. What they add up to is that the vast majority of states has done nothing at all.

The paper accepts the orthodoxy that no provision for retraining should be made at the price of any reduction in insurance benefits. This is probably sound pragmatics in political terms. The costs of retraining should be add-ons rather than being taken out of benefits that are too low and short-termed to begin with. The trouble is that this insistence becomes in some way part of doing nothing at all so far as retraining is concerned. The "coalition constituency that maintains the unemployment insurance system," increasingly a euphemism for institutionalized inertia, shies away from attempts to let the system which is already in place be given new responsibility.

In his closing section, Barton outlines the encouraging initiatives being taken in Delaware and California to extend the unemployment insurance program to include retraining. He goes on to suggest the promise that lies in proposals that have been made for "an ear-marked training tax" and for "individual training accounts" that would provide what he calls Retraining Risk Protection. Describing the relatively modest steps that would be required to incorporate some combination of these principles into the federal system, he makes almost rhetorical the question of why this isn't being done.

Perhaps the fairest reading of the available evidence and the current national mood is that nothing can be expected for the time being so far as fitting retraining into the federal unemployment insurance program is concerned. The Gramm/Rudmann/Hollings straitjacket precludes even innovation that would result in huge savings to the economy. The contrary argument, appearing clearly between the lines of Paul Barton's report, is that worker retraining should be recognized not only as part of the unemployment insurance system but as an integral element of the education program, for which the American public has always assumed, in its economic and social interest, major responsibility.

Willard Wirtz
August, 1986

I. INTRODUCTION

Unemployment insurance (UI) has developed into the principal method in the United States for helping unemployed workers. While there are legitimate disagreements about who should be eligible, how much the program should cost, and how much the weekly benefit should be, the central purposes are accepted by governments, employers, unions, and workers. This is the 50th anniversary of the system, and the system has much to celebrate.

This brief volume deals only with a limited aspect of the system. It asks the question: can there be a better fit between unemployment insurance and retraining? This author believes that there can be and there should be. Wherever we can help solve underlying employment problems as an adjunct to the principal objective of replacing a portion of wages lost due to involuntary unemployment, all will benefit: workers, employers, and the economy as a whole.

However, such efforts should be attempted only with full respect for the central purposes of this mature and successful income support system and without compromise of the rights which exist for workers in the system. For example, some have feared that movement in the direction of greater facilitation of retraining could result in workers being forced into remedial efforts as a condition of receiving benefits. This would be a grave mistake: the acquisition of useful skills must be sought, not forced. Forcing retraining would be an infringement of basic UI principles, and a waste of time and money. If such approaches as retraining do speed re-employment, and create more employment stability in the future, they will not raise the financial burden on the employers who fund the unemployment insurance system, particularly if a longer run view is taken. Progress will be made only as worker rights in the system are respected and as employer burdens are recognized; the balance is

struck between workers and employers every time an unemployment insurance law winds its way through a legislature.

Section II examines what has happened in state UI systems as a result of a little known provision of the 1970 Federal law taking a small step at achieving a better fit.

Section III examines the participation in that 1970 initiative on the part of state vocational education systems.

Section IV offers different levels of positive approaches within the context of this 1970 law.

Section V examines the important matter of how state systems can identify unemployment insurance recipients, early on, who are not likely to be re-employed without new skills and further education. Some such system is important to achieving the approaches described in Section III.

Section VI offers some possibilities beyond the legal framework established in the 1970 Federal law.

In general, the author is impressed with the number of cases in which significant efforts have been made as a result of this small retraining provision embedded in the 1970 Federal Unemployment Insurance Amendments. What has happened in a considerable number of states has happened because of the initiative those states took, for technical compliance with the 1970 law could be achieved with little real notice or effect. This report is addressed largely to those states that have lagged behind but may have a real interest if they obtain useful information and learn about what other states have been able to do. The time is auspicious for this, with the heightened awareness of retraining as a result of the Job Training Partnership Act. The fact that this Act makes no provision for living allowances increases the need to explore ties between unemployment insurance and retraining.

What is explored here is not, and is not intended to be, the answer to worker dislocation. There is no single answer. But there are many small steps that can add up to a structure that facilitates technological and economic change and avoids resting too much of the burden on individual workers and their families.

II. STATE UNEMPLOYMENT INSURANCE (UI) SYSTEMS AND THE 1970 FEDERAL UI AMENDMENTS

The purpose of unemployment insurance is to insure against the loss of wage income due to involuntary unemployment. Weekly benefits have been in the form of cash payments for subsistence during the search for work. Beginning with the 1958 recession, the Federal government extended the duration of unemployment insurance during recessions, first for 13 weeks, and then for longer periods. Such extensions reached a peak in the middle of the 1970s with many workers eligible for over a year of benefits.

Continued entitlement for those covered by the system is dependent on a) whether the claimant is "available" for work, and b) increasingly over the years, whether the claimant can demonstrate that he or she is "actively seeking work." These provisions have been one way to identify those who have a strong attachment to the labor force, who remain involuntarily unemployed, and who are actually available to accept a job when referred to one. These provisions have served the system well in getting the benefit to the people for whom the system was designed. For short, this provision of state laws became known as the "work test."

The 1962 Federal Manpower Training and Development Act raised the consciousness of the nation to the plight of workers displaced from their jobs. It provided Federal funds for retraining workers as one approach to dealing with displacement due to changing technology and other forces. This new consciousness caused some in the Federal government to look more closely at the ways in which retraining of workers could be facilitated, as well as where barriers existed to workers' pursuit of the retraining and further education needed for re-employment.

A worker who had tested the market might well, with proper counseling, have come to the conclusion that involvement in an adult vocational education program in a community college or in a proprietary school might be the best means of re-entering employment. This decision might have been reached early in the period of entitlement for unemployment insurance, after a period of unsuccessful job search and being advised that hiring of people with similar skills was becoming more infrequent. But, a worker enrolling in full-time training or education would not, under laws at that time, have been eligible to continue to receive unemployment insurance payments. Such workers would not have been considered "available" for work nor actively seeking work. Yet, the decision to so enroll could have been logical in view of a worker's existing skills and labor market conditions and trends. The availability of continued benefit payments might have been essential to pay for living expenses while going to school. The alternative was to wait until benefits were exhausted and resources were greatly reduced. Long spells of unemployment can cause discouragement, loss of confidence and reduced motivation, and may result in workers drifting into welfare.

The UI system is a joint Federal-state system. The Federal partner sets a few standards the states must follow, but largely leaves them free to shape the nature of UI entitlement, benefit, and taxing system. In 1970, the Federal government enacted a provision that would permit workers to enroll in training without denial of benefits due to application of the work test, in effect suspending the test until training was completed. The precise provision of this Federal amendment is as follows:

(8) Compensation shall not be denied to an individual for any week because he is in training with the approval of the state agency (or because of the application, to any week in

training, of state law provisions relating to the availability for work, active search for work, or refusal to accept work).

In general, it was not a provision that achieved much visibility. While compliance was necessary, it was not something actively pursued by the U.S. Department of Labor, except as part of its normal job of instructing the states regarding what constitutes compliance. As might be expected, facilitating training was not an objective normally in the mission of the unemployment insurance system. The first outside effort to find out what was happening to give substance to this Federal law was reported five years later in the book The Boundless Resource: A Prospectus for an Education/Work Policy, by Willard Wirtz and the National Manpower Institute.¹ It reported as follows:

While state laws have been changed, there has been no follow-up to see whether the spirit of the federal initiative is being carried out, whether individuals are being informed of the new opportunities, and how many, in fact, are enrolling in training courses as a result....Over half the states have spelled out what "approved training" means....Plainly, as a first step, claimants should be clearly and positively advised of their new rights.

This report, a decade later, is in part an attempt to bring that report up to date. While incomplete, it will provide a view of the range of state attitudes and practices. Letters were sent to state UI systems asking for information. Twenty-eight replies were received. These replies have some limitations. Among them is the fact that compliance with this provision is required by Federal law; any state replying must claim at least technical

¹ Published by the New Republic Book Company in 1975. The National Manpower Institute changed its name in 1980 to the National Institute for Work and Learning.

compliance.² While we can get an idea of state approaches and variation in them from letters, visits would be necessary to the group that merely claim compliance, and show what their laws and regulations contain, and say that claimants are informed about what is in their laws and regulations.

A. States having a retraining provision prior to the 1970 Federal amendments

Not all states were ignoring ties between unemployment insurance and retraining. Of the twenty-eight replying, three already had laws on the books prior to 1970. In 1963, Hawaii enacted the following legislation:

Notwithstanding any provisions of this chapter to the contrary, a claimant shall not be denied benefits because of his regular attendance at a vocational training or retraining course which the Director of Labor and Industrial Relations has approved for the claimant. The director may approve such course for a claimant only if:

- (1) Reasonable employment opportunities for which the claimant is fitted by training and experience do not exist in the locality or are severely curtailed;
- (2) The training course relates to an occupation or skill for which there are, or are expected to be in the immediate future, reasonable employment opportunities in the locality;
- (3) The training course is offered by a competent and reliable agency; and
- (4) The claimant has the required qualifications and aptitudes to complete the course successfully.

In 1969, Hawaii relieved base period employers of charges to their experience rated tax account for former employees who enrolled in training. In 1976, Hawaii further amended the law to define retraining more precisely, to require claimants enrolled in training to be available for work during

² To illustrate, the author visited one state that reported itself as being in compliance. However, state officials said that no one was given "approval of the state agency" for training and that the state had discretion to refuse approval.

vacations, and to deny benefits for a week in which there are one or more unexcused absences.

The claimant is informed of these rights at the time the UI claim is filed, and opportunities for re-employment are assessed. A claimant "who is identified as having unmarketable skills is advised of the opportunity of maintaining eligibility for unemployment benefits while attending approved vocational training. An interested claimant is then referred to the Employment Service to further explore a suitable vocational training program."

After referral, "the Employment Service provides the claimant...the resources available for training purposes. These resources include other State or Federal agencies, such as the Veterans Administration Services or the State Vocational Rehabilitation Agency, also educational institutions within the community that offer various vocational training courses." However, "the Employment Service has no direct linkage with, or arrangements with, any educational institutions to enroll an individual for vocational training."

The above represents a serious effort to make training opportunities available, although this author has no information about how it all works in actual practice. Linkages between the E.S. and educational providers would likely be a desirable further step. The Office of the State Director for Vocational Education in a separate letter, also said that no working relationships exist.

West Virginia enacted a retraining provision in 1961, and amended it when the 1970 Federal law was passed. An effort is made early on to identify claimants in need of retraining.

Massachusetts enacted similar legislation in the early 1950s and revised it a couple of years ago to make it easier for claimants to avail themselves of retraining opportunities. The Massachusetts law, in addition, permitted an

extension of benefits to those enrolled. In the early 1980s, Massachusetts made tuition free at community colleges for unemployed workers. These two laws might be thought to work well in tandem; however, the Massachusetts UI law applies only to enrollments below the postsecondary level.³

B. States that have expanded the scope of retraining arrangements since initial compliance with the 1970 amendments

Six additional states have revised or expanded their approach. A few examples are provided:

- o Since early in 1984, Arizona has taken a much more positive approach. A new provision of law was added "to assure that futuristic, meaningful training can be obtained by unemployment insurance recipients."
 - Both UI and Job Service personnel "are encouraged to advise claimants of approved training opportunities during periodic eligibility interviews and [Job Service] counseling."
 - "Schools in Arizona are aware of the approved training program and potentially eligible individuals are referred to the Department [of Economic Security] to initiate a UI/approved training claim."
 - The regulations state that "Training is not limited to vocational training but also may include academic courses which improve an individual's employment opportunities."
 - A provision that may be of interest to other states reads as follows: "An employer who is a claimant's only base period employer, and who has been determined subject to charges for benefits paid to the claimant, may refer such individuals to approved training, provided the training meets the criteria..."
 - In 1984 the Department of Economic Security established the Arizona Employment and Training Institute to address the training needs of Arizona through the year 2000 and called upon individuals to submit issue papers in various categories. The UI administration submitted a proposal for a small separate tax to be earmarked for a retraining program, identifying alternative strategies. The paper states that "a tax of as little as 1/10 of

³ Information from Massachusetts was obtained in a field visit during the summer of 1984. The large growth in occupational training in community colleges occurred after the 1950s when the original UI provision was enacted.

1% of the existing tax base (\$7,000.00) would amount to \$7.00 per employee maximum and would yield approximately \$6 million per year."

- o While regulations issued in 1977 in Montana provide for disqualification of students during a school year or during vacation periods, there is an exception for anyone "in training approved by the department." Approved training is specifically related to the 1970 Federal amendment. Also "bas. education, provided as a necessary prerequisite for skill training, or other short-term vocationally-directed academic courses may also be approved for claimants."
 - o The reply from New Jersey stated that approval for retraining had largely been limited to programs administered under state and Federal laws. The agency is, however, "now moving towards wider acceptance of training programs developed by the claimants themselves, through public or private training facilities. Insofar as new procedures are concerned, the state has recognized that the key to successful training is the uninterrupted receipt, without delays, of the UI benefits. New Jersey has, therefore, developed a payment-by-mail system for trainees so they need not take time from the training to report in person for their checks."
 - o In Tennessee, with the advent of the Job Training Partnership Act, the definition of "approved training" (as a result of the 1970 amendments) was made broader to include programs conducted by agencies other than state vocational schools.
 - o Washington, in 1981, expanded its criteria to "include vocational training required for continued employment and basic education within or pre-requisite to vocational training."
 - o Beginning in 1981, a more active approach was commenced in Delaware to inform claimants judged in need of training to become re-employed to take full advantage of the provision which permits them to continue to receive benefits while in training.
- C. States reporting compliance with little elaboration as to what is done in any positive way to encourage claimants to enter retraining or further education while drawing unemployment insurance (under the 1970 amendments)

Eighteen of the states responding fall into the above category, based only on their responses to the author's letter to them. However, as indicated earlier, it is very hard to determine how positive an approach states take from

a reply to a letter, because the law requires compliance and no state is going to write that it is not doing what the law requires.⁴

In fact, a state has to do very little to satisfy the Federal law. It must change the state law, or at least the state regulations if the law is broad enough for administrative interpretation. It needs to establish criteria as to what constitutes approved training and who will do the approving. As with any other condition of eligibility, it must inform claimants in some way, either all of them at the beginning of the process or when an inquiry is made. A great many states put the information in the booklet given to all who apply for UI benefits. In the final analysis, the Federal law, as currently written and as minimally implemented, does little more than establish a basis for successful appeal if a claimant is denied benefit because he or she is enrolled in training and as a result does not meet the work test.

While these 18 States are here lumped together, some may in fact be making positive and good faith efforts to help claimants avail themselves of this training opportunity. Others in this group may have complied on paper but do not agree with the goal behind the 1970 amendment, and do nothing to give effect to it. It is, after all, a Federal requirement imposed on the states and the states do not have to like it or do more than technically meet it. There is no intention in this report to castigate such states because they are not doing more. Rather, the desire is to persuade more states that the goal behind the amendment is a desirable one and give them information that may help them take a more active approach to creating a better fit between unemployment insurance and retraining. A few examples convey the tone of the replies from these 18 states:

⁴ As indicated earlier, one state wrote that it carried out the law. However, in a personal visit I was told that no claimants would be approved for training. It is hard to say whether the Department of Labor would rule the state out of compliance, for no test has been made.

- o "The only policies and procedures which have resulted from the 1970 amendment is that [the state] included this provision in its state law and regulations."
- o "It has been a fundamental precept of the Bureau that Unemployment Insurance is not income maintenance or subsidy. Accordingly, waivers from the work search requirement during participation in training programs have only been allowed as provided by law in limited circumstances...it must be noted that the 1970 amendments...began a process which is still evolving."
- o "Available data appear to indicate that the 1970 Federal UI Amendments may not have a significant impact upon retraining efforts..."
- o "The...Law...and our policy provides that an individual who is otherwise eligible for benefits shall not be denied these benefits for any week because he is in training with the approval of the Commission...If there is a training need or interest, the claimant is referred to the counselor for a more indepth exploration of available training."
- o While the law previously limited UI payments to Commission sponsored training, "it has been changed to comply with federal requirements."
- o Statutes and administrative rules were enacted to insure state compliance. Procedures were developed to evaluate training requests, monitor school attendance, and make payments to individuals determined eligible.

As can be seen from the above, there are a variety of responses, ranging from resistance to what appears to be full compliance with the spirit as well as the letter of Federal law. It would be unfair to categorize these states further without a more thorough exploration of what, in practice, they actually do.

III. VOCATIONAL EDUCATION AND THE 1970 UI AMENDMENTS

There are a number of different sources of retraining opportunities for unemployment insurance recipients who need it. The principal one is the vocational education system.⁵ At least since the passage of the Manpower Development and Training Act in 1962, vocational education has been a partner with state and local labor market agencies in the delivery of retraining. If there is to be an active, positive approach to expanding opportunities under the 1970 UI amendments, or going beyond them, it is critical that state vocational education agencies be well informed of UI law, and be in close partnership with the Unemployment Insurance/Employment Service/State Labor Department complex.

For this report, a letter was sent to each state's vocational education agency, pointing out what the 1970 UI amendments were and what they meant. The letter asked three questions, as follows:

1. Are you aware of this 1970 provision of Federal UI law?
2. Do you have a working relationship with the Unemployment Insurance agency to assist claimants in taking advantage of this provision? If so, what is the arrangement, and how do Voc Ed and UI work together?
3. If you have not been working with UI, or your state has not taken an active approach to helping UI claimants who need retraining get it while they are still entitled to UI benefits, would you be interested in being involved in such an effort?

Thirty states, the District of Columbia, Puerto Rico, and the Virgin Islands replied. The results are summarized below.

⁵ Another is the community college system. Often, the two overlap in state government systems. No systematic effort has been made to see how community college systems may be aware of or involved in the implementation of the 1970 amendments.

A. Awareness by the Vocational Education Department of the 1970 UI Amendments

Twenty three states were aware of the 1970 UI Amendments. Nine were not. Degree of awareness was not clear for one state. Several states became aware of the amendments only recently; one, because of the Job Training Partnership Act. Another state started looking into the provision only after receiving the letter of inquiry.

B. Working Relationship with UI to Implement the 1970 Amendments

In many cases it was hard to tell, without more information, how operative such relationships really were, although there was enough detail in some replies to indicate that serious efforts were being made on both sides to help claimants avail themselves of retraining.

Seventeen states and the Virgin Islands indicated a working relationship. Twelve states, the District of Columbia, and Puerto Rico said that they had none with regard to this provision. The reply from one state was unclear. A few answers will convey the range of comments about this relationship, where it existed.

- o "The provision of the law that you mention has been discussed briefly. As yet there is some reluctance on the part of business to utilize the provision."
- o "It is important to note that in our state a strong relationship has been built between the various actors in education and training... Although not all needed policy changes come easy - and some come not at all - we enjoy in this state, among the employment and training actors, a 'real spirit' of cooperation and partnership."
- o "The Bureau of Vocational Education took an active role with the [state] Department of Labor to develop and adopt a policy by which every UI claimant is apprised of the programs and services available, and recruitment efforts are a continuous process through D.O.L. local deliverers of Vocational Education/JTPA programs."
- o "At least one person at each school, in the Student Personnel Services area, is fully versed on all avenues of Student Financial Aid. This person... has a good working relationship with the Unemployment Insurance Offices...."

- o "Each Job Training Partnership Act client receives a booklet on unemployment insurance information and instructions which includes statements on retraining efforts while receiving unemployment insurance benefits. However, the responsibility falls upon the client to pursue available opportunities if not enrolled in a displaced workers' program."
- o "The Department of Employment, which administers the UI program, refers numerous clients to our postsecondary area vocational-technical schools."
- o "Unfortunately, some local offices are still strictly interpreting the provisions which allow training..."
- o "The UI section was quite familiar with the 1970 law, but vocational education was not aware of the law until the passage of JTPA legislation."

Five systems that were aware of the amendments had no working relationships to be a party to their implementation.

C. Interest in a More Active Approach

This question elicited considerable interest in greater involvement of vocational education in a more active approach to implementation of the 1970 amendments. The degree of this interest varied, and it is hard to judge the depth of it from the letters received. There was interest on the part of some states that have no working relationship with UI, and there was also considerable interest among many of those states saying they already had a working relationship.

Among 14 systems saying they had no working relationship regarding the 1970 amendments, ten have an interest in a more active approach. A few quotations from the letters will illustrate the nature of this interest.

- o "I am interested in further discussion about implementation of the law and would appreciate receiving your materials and suggestions."
- o "We certainly are interested in being involved in a retraining program with UI recipients."
- o "We would be interested in becoming more involved in this effort. Widening opportunities for education and training among displaced

workers is a priority for vocational education.... We would appreciate being informed of your progress...."

- o "At the present time, most of the programs in vocational schools in [the state] do not have long waiting lists. It would be relatively easy to serve persons on unemployment insurance in the educational program of their choice so that they would be trained for skilled employment while they are receiving these benefits...."
- o "We would be very interested in being involved in such an effort. Your letter itself has spurred activity to flow this information to our local coordinators and teachers."

Among those states that have some kind of an involvement with unemployment insurance regarding the 1970 amendments, 12 would like to improve these efforts or receive further information about such possibilities:

- o "I agree that more can be done to make these benefits known to all displaced workers."
- o "Should you desire to explore this issue from both a state and national perspective, please be assured of my interest."
- o "We believe the linkage is in place.... between unemployment insurance and vocational training. We also believe staff of both agencies could use additional information to further implement this program at the local level."
- o "The Department of Vocational Education Services feels that the additional assistance provided by a query such as you are proposing would benefit the state system and individuals within the state to a great extent. We would lend support to such an effort and would look to your leadership to determine additional areas we may work [on] cooperatively with the Department of Labor relative to displaced workers or individuals collecting unemployment insurance benefits."
- o "If the intent of the concept of 'active approach' or policy advising displaced workers of the availability of education or training is one that will continue to increase educational opportunities for displaced workers, you can count on our involvement in the project."

On the side of vocational education, there seems to be considerable interest in a more active role in helping unemployment insurance claimants who need retraining. Twenty-two of the 33 systems responding to the inquiry expressed such interest.

IV. A POSITIVE APPROACH TO IMPLEMENTING THE 1970 AMENDMENTS

There are many ways to approach a better integration of unemployment insurance and retraining/education. Some of these would require significant changes in state law (or in Federal law) and changes in funding structures. The first step for states is to take full advantage of existing Federal and state unemployment insurance laws, using them to facilitate needed training and education.

As explained earlier, such facilitation can be undertaken without compromise of the principles that have formed unemployment insurance. Also, such facilitation can be carried out with safeguards that protect the employers who pay for UI from increased cost, and over the long run such efforts should result in savings. This author believes that there is a good case for new legislative arrangements to facilitate better access to retraining for displaced workers; however, useful improvements can be made in a great many states within the existing legislative and institutional framework.

The 1970 Federal law, which prohibited the denial of unemployment insurance benefit to persons enrolled "in training with the approval of the state agency," is described in detail in Section II.⁶ Most states took steps to implement this Federal standard in the early 1970's and have not since re-examined the implementation arrangements. It was one of those dreaded "Federal Standards" that states usually oppose when under consideration by the Congress. At that time there was relatively little interest in retraining programs and displaced workers. It was natural that states would do the minimum necessary to comply, and no more. Compliance is, as explained earlier, relatively simple and

⁶ See page 4.

can be accomplished with practically no claimant being affected by the Federal provision.

The interest here is in suggesting how states that want to achieve a better integration can take steps to do so. Below, an effort is made to outline a general approach. State circumstance will dictate needed variations.

A. Step One

The first step is to review the actions taken to comply with the 1970 Federal Amendments to see if efforts were made to give it only the narrowest possible implementation, and if present arrangements are unduly limiting.

All states, either in law or in regulations, have established the conditions that constitute "approval of the state agency." Does this give narrow or broad scope to the training and education that would speed re-employment?

For example, who grants the approval of the kind of training and education that is permitted? Approval is often delegated to a single agency. It may be delegated to the state body handling publically funded adult education that may not recognize the new opportunities for adults in postsecondary education, particularly community colleges. What is desirable is to review all the training/education opportunities available and include all those that have a capacity to enhance employability. Those to be considered are:

- The public vocational education system
- Adult Basic Education
- Community colleges

- Retraining programs under JTPA⁷ and other training/retraining programs created by states (or localities) to stimulate economic growth
- Colleges and universities that have flexible programs for adults
- Proprietary schools

Delegation of the authority to approve training to a single entity may unnecessarily limit the kind of training that is approved. Also, since approval involves judgments about whether particular kinds of training/education will lead to jobs, the labor market agency, usually the Employment Service and/or the authority administering JTPA, needs to be involved. Assuring comprehensiveness requires inventorying the range of providers and making judgments about the relevance of their programs to conditions in the local labor market. This is the case whether approval authority is retained by the Unemployment Insurance agency or is delegated to another entity.

Procedures for compliance were generally worked out in the early 1970's when training programs such as those under the Manpower Development and Training Act were most visible. Many states defined "approved training" along the narrow lines within which such programs operated. Since then, the structure of opportunities for adult education and training has been greatly enlarged. If the criteria for "approved training" have not been recently reviewed, they are a good place to start.

Do the criteria for "approved training" include education beyond narrow, skill specific training? Many of the early criteria excluded basic education that a person with insufficient literacy skills might need to become employable. Basic education may be especially needed by immigrants who have not learned English. Basic education and literacy components of re-employment programs have

⁷ Of course, states are required to continue paying UI benefits to those claimants who enroll in JTPA.

become widely accepted. Are they included in the "approved training" criteria in your state? Is it clear to all involved that such education is included when needed for employability?

Beyond such basic education is another level of education that states should consider, although it is in a gray area which, after examination, some may want to rule out. If an unemployed person can enroll in a program that provides a high school diploma (or GED certificate), a great many states might consider such a program a valid approach to increasing employability. But what if an unemployed person is enrolled in the local community college for an associate degree? Assuming that this person is judged likely to exhaust UI benefits without being re-employed, needs a few months to complete the degree, and the completion of degree requirements is judged to lead to re-employment, should the person be entitled to UI benefits for the needed months of enrollment? It may be a sound financial decision to approve such training, but many states may be hesitant to take this step.

B. Step Two

Convey to all UI personnel and to UI claimants your state's positive attitude toward facilitating training for UI claimants when it is necessary for re-employment. Once a state has rethought its position and created new criteria and new procedures, training sessions will be required to create a new attitude on the part of personnel, on both the unemployment insurance and employment service side.

Claimants will need to be made aware of this option in a clear fashion. States may or may not want to actively encourage claimants to seek retraining, but whatever the state decides should be clearly conveyed in the information provided. In some states - probably many - the information is buried in the fine print of the little book given to claimants defining their rights and

responsibilities. It becomes one more item in the fine print, and while it puts the states in compliance with the Federal law, it does little to make the opportunity come alive for the claimants. "Training" is not ordinarily the business of UI personnel; an alternative may be to have a training agency (such as the JTPA administering authority) inform the claimant of the options. It is conceivable that the state vocational agency would make a guidance counselor available for this purpose, outstationed at the UI claims office.

C. Step Three

Decide how far the state desires to go in seeking to use retraining in tandem with unemployment insurance. The possibilities range from opposition to doing anything at all to using the training/UI relationship purposely to increase the skills of a state's labor force, increase worker adaptability, and possibly reduce costs to the insurance fund.

It is assumed that a state will, at a minimum, want to comply with both the letter and spirit of the Federal law. It may be useful to think of a range of efforts for facilitating training on the part of UI claimants (under the kind of carefully defined conditions described in this document).

1. Reliance on Claimant Initiative

Most states that are in merely technical compliance with the 1970 amendments probably rely on claimant initiative. The majority of states made the necessary changes in laws and regulations, put some fine print in the materials given to the claimant, and left it at that. There was little need to do more if there was no desire to do so; if a claimant pressed the issue it could be handled. Few claimants under these circumstances would ever raise the issue. But even if a state desires to take a basically positive attitude (and is not opposed in principle), more reality could be given to the opportunity by specifically calling it to the attention of claimants and telling them the

process by which they can enroll in training and still collect their unemployment insurance. If a state is interested in taking this minimal step it could start by asking: what is the claimant told, when, and by whom, and is there a simple procedure for getting the necessary approvals?

2. Assessment of Claimants' Prospects for Re-Employment

In addition to the clear information about the circumstances under which UI recipients can enroll in training, claimants could be advised whether they should consider seeking retraining or other education. Their applications are taken by the Employment Service (or whatever its local designation) and that agency (or the authority administering JTPA) is usually the largest repository of information about the labor market in the community. Based on the characteristics and skills of the claimant and the structure of the local economy, the agency can make an assessment of the claimant's prospects for re-employment with existing occupational skills and level of literacy. The claimant can be informed as to whether new skills are needed to be successful in the search for re-employment. While initiative to seek training is left entirely to the claimant, the claimant at least has information about the retraining option under UI law and about the marketability of his/her existing skills.

3. Advisement and Referral Services

A claimant knowledgeable about the retraining option (in 1) and about the poor prospects with existing skills (in 2) has a long way to go to connect up with a training/education opportunity. Except for those programs available through JTPA, or other special training programs linked to the state employment security system, an unemployed person will not likely know where to go. If the UI period is to be used for training, decisions about it must be made fairly quickly or the period when income is available will slide by. It has been the

experience of many programs that displaced workers delay recognizing the necessity for retraining or cling to hopes that they will be recalled. It is unlikely that significant portions will seek out opportunities without some kind of advisement and referral services. Taking an active part in helping the training option to be realized means having services (in addition to 1 and 2 alone) to:

- tell claimants what training/education opportunities are available in the community and at what cost;
- tell them specifically whom to see at various training/education institutions;
- help them decide among the choices available;
- help them figure out an approach they can afford; and
- provide placement services after training/education is completed.

To do this requires close contact with the local training/education institutions and acting as "broker" or "advocate" for the claimant.⁸ If UI/ES does not want to take on this role it might be contracted out to the JTPA authority, or a local "educational brokering" agency, or the guidance counselors in the vocational education system.

4. Collaborative Ventures

If a state wishes to pursue retraining/training more aggressively for UI claimants expected to exhaust benefits without becoming re-employed, there is a step beyond (3) above to be considered. It is creating and leading a collaborative effort at the state and local levels to bring institutions

⁸ For a full discussion of such services see Chapter 4 of Worklife Transitions: The Adult Learning Connection, Paul Barton and the staff of the National Institute for Work and Learning (New York, McGraw Hill, 1982).

together to facilitate retraining/education. In the last couple of decades a varied set of training/education opportunities have been created to meet an adult market, and these have largely been to help further occupational objectives⁹. Arrangements and costs vary. The community colleges, in particular, have been flexible and responsive to changes in the market.

While there has been growing sophistication in creating separate programs of limited size for displaced workers, there has been relatively little effort to help displaced workers needing retraining by creating collaborative networks that bring to bear multiple capabilities throughout the community.¹⁰ The Employment Service has matched unemployed workers (and their capabilities) to available jobs (and their requirements). There has been little comparable effort to match displaced workers needing training (or further education) with the full range of opportunities which exist throughout the community. A large step in this direction would be to organize a council of all related community agencies and institutions. The UI/ES/JTPA would work through it to identify:

- existing opportunities, their requirements and their costs;
- individuals in these institutions to whom displaced workers can be referred;
- barriers that may exist to workers availing themselves of such opportunities; and
- sources of funding to help defray tuition costs, and help workers seek out and take advantage of the financial aid which does exist.

⁹ For as complete an inventory of types of opportunities as is available, see Bryna Shore Fraser's The Structure of Adult Learning, Education, and Training Opportunity in the United States, National Institute for Work and Learning, 1980.

¹⁰ For descriptions of two such efforts, funded by the Kellogg Foundation, see Serving Adult Learners, by Stephanie Lang Barton, 1982, and Toward Local Collaborative Networks for Adult Workers, by Gerard Gold, 1985. Both are published by the National Institute for Work and Learning, Washington, D.C.

It is hard to anticipate what such a network might produce. It would, at a minimum, heighten awareness of the specific instructional needs of UI claimants likely to exhaust benefits and remain unemployed. It would enable such workers to tap into existing opportunities and may lead some institutions to modify policies and practices that would facilitate training; e.g. as mentioned earlier, the community colleges in Massachusetts suspended tuition charges to the unemployed several years ago.

* * * *

These are merely pointers for how a state can start to think about taking a more active approach to facilitating training for UI claimants. It is not an effort to specify program details or procedures. Once policy directions are chosen, states will take divergent steps toward their realization.

V. THE TRAINING ALTERNATIVE: WHEN AND FOR WHOM?

In the preceding chapter it is recommended that states, very early in the processing of an unemployment insurance claim, identify those who are displaced and are not likely to become re-employed without retraining or further education. Early identification is necessary to taking any of the positive steps described to assist in exercising the training option. It is necessary for two reasons. The first is that few claimants will want to undergo retraining if they have good chances of becoming re-employed with their existing skills. The second is that states are not likely to want to waive the work test for people enrolled in training unless they are reasonably satisfied that those people could not be placed in "suitable work" without retraining.

With regard to the first, the concern is being able to offer advice about when training is really needed. It is often the case that learning new skills might be advantageous, but it is not proposed here that a training adjunct to the unemployment insurance system be used for general purposes.

With regard to the second, it will be necessary to assure the funders of unemployment insurance that costs would likely be no more with a positive approach to the 1970 amendments, and that over the long run there may be savings. Few states will likely want to take the approach of waiving the work test for anyone who wants to enroll in training or retraining, irrespective of whether this may be judged beneficial to the re-employability of the individual. UI insures against wage loss due to involuntary unemployment, but is not intended to assist in the funding of training for any person who may desire it. It is here argued that the kinds of positive approaches outlined earlier are

consistent with basic UI objectives, but to be so means having reasonable assurance that the work test is waived only when claimants would otherwise exhaust benefits without becoming re-employed.¹¹

"Reasonable" assurance is used because there can be no certainty; a prediction is involved. But states can choose from a range of alternatives that give them varying degrees of certainty, depending on how careful and conservative they want to be.

There are basically two approaches that may be used separately or in tandem. The first is a screening process; the second is a labor market assessment.

A. Screening Process

States have a variety of approaches to sorting claimants into categories to maximize the chances of early placement. It is standard for claimants to register with the Employment Service and be referred to available jobs. It is frequently required (but not always) that claimants make their own "active search" for work, and show evidence of it. Increasingly, claimants are being categorized as "employment ready" or not, with those in the latter category receiving counseling and entering into classes that teach them how to search for jobs. (When those classified as employment ready do not land jobs, they may be cycled into job search classes, as is done in Delaware.) If the Employment Service is an active participant in a strong JTPA program, it will identify UI claimants who are potential candidates for training. Claimants themselves will probably already have been testing the market.

¹¹ The discussion here relates to what can be done within the existing UI legal and funding frameworks, not to situations where that framework may be broadened to encourage re-training.

Where states have screening processes that go into motion as soon as a person is declared eligible for UI, there can be some assurance that a person still unemployed after six weeks or so does not generally have the skills or attributes in demand, and the probability may be high that unemployment will continue through exhaustion of benefits.

How effective would these screening processes be in identifying those likely to exhaust benefits? If there is serious doubt, and reservations about proceeding, a cohort of unemployment insurance claimants who were identified as needing training by the screening process could be followed through a complete benefit cycle. They would be treated in the regular fashion without training. At the end of the period it would be possible to see what percentage were re-employed and remained in jobs. If a large percent of this group was successfully re-employed without further help, the first thing to do is look at who they are and see if the screening procedure can be improved. Perhaps modifying the screening process would be the answer, rather than outright rejection of the targeted training alternative.

While what is described above is relatively straightforward, the author is aware that there is an additional difficulty to be faced. It is a well known fact, from careful studies over the years, that there is a category of claimants who exhaust benefits and then withdraw from the labor market, either immediately or shortly thereafter. There might be disagreement over how many wanted to continue working but became - to use the common term - discouraged and how many had a weak attachment to the labor force originally. Identifying claimants who have a strong attachment to the labor force has long been a problem for the unemployment insurance system; it cannot be resolved only in the special context of whether to encourage use of the retraining option.

B. Labor Market Assessment

The combination of the local Unemployment Insurance and Employment Service offices contains, in most labor markets, the greatest knowledge of labor market conditions. Over the years these offices have developed a variety of means of assessing labor market conditions, although few have done it comprehensively or systematically. The gradual decline in the market share of the Employment Service has made employer job listings with the Employment Service an ever less reliable guide to conditions in the market as a whole. However, a variety of means are available for tracking the labor market, and Federal and state officials know them well. These may be reflected in "demand lists" put in front of unemployment insurance claims processors (supplied by the Employment Service) to tell them occupational areas where employers are hiring.

If this capability does not exist in the regular offices of the Employment Service, it may exist, instead, in the administrative unit assigned the responsibility for the Jobs Training Partnership Act.

The proposition is that there can be periodic surveys and projections of trends in labor market conditions. Major trends can be identified. Some things can be known with fair certainty; Sharon, Pennsylvania would know that unemployed workers with certain skills unique to the steel industry are not going to be re-employed in that area with those skills.

An Employment Service that is trying to increase its listing of job openings will be in touch with employers, calling on them regularly. Old Employment Service manuals contain systems for visiting and recording information from "major market" employers. A system, imperfect as it is, was developed long ago for making local projections of occupational demand, called "area skill surveys." The Economics Departments of universities are regularly called upon to make local surveys and projections, either for the Employment

Service or for the JTPA program. In some states, such systematic studies are a required basis for the selection of courses for the vocational education system.

All these techniques can be brought to bear on the question of whether unemployment insurance claimants with particular skills are likely to be re-employed with those skills, or whether they will exhaust their regular (and any extended) benefits without becoming re-employed.

While these techniques do not provide foolproof answers, their use may increase the likelihood that target groups can be chosen for the retraining option. As discussed under (A) above, these techniques can also be subjected to empirical testing to find out the extent to which target populations can be identified that are likely to exhaust benefits without re-employment.

C. In Combination

The approach providing the most assurance that target populations can be identified early on is to use A and B in combination.

When claimants have been identified through the screening process in A, their skills can be checked against the labor market assessments in B. Again, the predictive ability achieved in the combination can be tested empirically. The results obtained will vary among communities depending on the care with which A and B are carried out, the extent to which the local labor market is dynamic, the extent to which the industrial mix is stable (or following a trend), and the swings of the business cycle.

* * *

In states with highly developed screening systems and where labor market studies are commonplace, the above will sound elemental and sophomoric, as it will to those who have become professionals in labor market and retraining problems and policies. It is, of course, not written for them. Rather, it is written for those who are becoming interested in closer relationships between unemployment insurance and retraining, and for those policy officials outside the ongoing system who may want to influence its direction.

It may also be helpful to fledgling retraining programs under JTPA that may desire to reach unemployed workers early on. The JTPA system does not have funds to pay maintenance allowances. Exploring the possibility of catching workers in need while they still have unemployment insurance available may be an attractive option, particularly since JTPA, by defining its enrollees as being in training approved under UI law, has the effect of waiving the UI work test.

VI. BETTER PROTECTION

Prior sections have described ways in which individual states have used the unemployment insurance system to facilitate retraining. These have been significant, but rather modest, attempts to broaden the base of financial support for retraining displaced workers. In addition, alternative ways have been suggested for advancing on these fronts within the framework of what is permitted under existing Federal and State unemployment insurance law.

But, is there a route to greater facilitation of worklife transitions through retraining that builds on the existing Federal-State system of Unemployment Insurance? In exploring that question we do not here intend to provide an independent analysis of the degree of worker dislocation, the validity of the retraining alternatives, nor of the unending debate over how many individuals might profit from the retraining approach¹². The most comprehensive review ever undertaken in the United States was published in 1986 by the Office of Technology Assessment, titled Technology and Structural Unemployment: Reemploying Displaced Adults (445 pages and the result of about two years of work). Its overall conclusion was:

Over the 5 years from 1979 to 1984, 11.5 million American workers lost jobs because of plant shutdowns or relocations, productivity, or shrinking output.... In 1984, 1.3 million of these displaced workers were still unemployed, joining the millions of others seeking work during a recovery that has not yet pushed the civilian unemployment rate below 7 percent.... There is broad consensus that displaced workers...should not have to bear burdens of adjustment on their own.... Reports on the first 2 years of operation show that JTPA programs are

¹² This author has reviewed this area in Worklife Transitions: The Adult Learning Connection (Chapter 5), McGraw Hill, 1982.

helping displaced workers find new jobs. However, it is likely that no more than 5 percent of eligible displaced workers are being served.

This report is addressed principally to those who agree with the OTA conclusion and who are interested in new ways that retraining efforts can be encouraged and expanded. One of those ways may be through relationships to the unemployment insurance system, or through application of the basic concepts which undergird it.

There are two such possibilities advanced in this section. However, neither would go beyond present law in integrating retraining into the unemployment insurance system, although both bear some relationship to it. Over the years there have been a few proposals for "adding" retraining to the UI system, or authorizing the use of UI trust fund moneys for remedial efforts, including training. They have gathered little support and they would encounter strong opposition from the coalition constituency that maintains the unemployment insurance system. The principal considerations are these:

- o While there is support for remedial effort as an alternative to just income support through unemployment insurance, an effective argument is made that this does not need to be done within the UI system. Training can be offered through an alternative system, and this approach can negate the need to draw UI, if training allowances are provided in addition to coverage of training expenses. Further, long run effects of such training may lessen the drain on the UI system.
- o Some proposals, particularly in earlier times, have looked longingly at the reserves in the unemployment insurance system as a source of funds for remedial efforts. There was resistance to such a diversion of UI reserves. Also, a series of recessions and state borrowing from the Federal government to stave off insolvency seriously weakened the case for any diversion of UI funds to other purposes.
- o The rights and responsibilities under the UI system were built up over five decades. There was fear that injecting retraining would impact basic rights. An example was that states might require retraining as a condition of eligibility for UI benefits, creating a limitation on rights as they now exist.
- o The complicated system of financing unemployment insurance and the experience rating system were not designed to allocate the cost of remedial efforts.

Reviewing U.S. and foreign experience in 1980, Charles Stewart came to this conclusion:

The disadvantages do not appear to be those of creating a larger, and more complex, organizational structure. Integration might involve simply a better coordination, which would be desirable, of a set of related functions or services. The chief disadvantages would appear to arise from the incompatibility of the Federal-State unemployment compensation system, with its insurance pretensions, experience features, and financing by payroll taxes on employers, for paying for training that might extend rather than shorten time spent in unemployment status...¹³

While it is probably time to abandon any idea of drawing on UI trust funds for paying training expenses (other than paying UI during the retraining under specified conditions), there are two aspects of UI that provide possibility for greatly improving protection from the personal (and family) hardship of displacement. One is using the UI payroll tax collection system for collecting an earmarked payroll tax specifically for retraining (and possibly other employment assistance efforts). The second, and much more ambitious, is the application of the social insurance concept in unemployment "insurance" on a broader basis.

A. The Earmarked Tax

While some have talked about "using UI funds to pay for retraining," this is not possible in a literal sense, at least under existing Federal and state unemployment insurance law. Taxes collected under UI law must be used for UI benefits. But it is possible to use the UI tax collection system to collect an earmarked training tax. The mechanism is there in the form of a payroll tax on

¹³ Charles Stewart, Worklife Education and Training and the Ordeal of Change, Charles D. Stewart, National Institute for Work and Learning, 1980.

employers. Whether it is desirable to do this, of course, depends on the priority assigned to retraining by the state and the benefits recognized by the employers who would have to pay the tax.

The reaction of a state to the use of the UI tax collection system to collect a new tax will also depend on whether its UI system has a surplus or is in debt to the Federal government through the "borrowing" provision in the Federal law. Where the desire exists and where net new taxing is not considered tenable, there are possibilities in many states along the lines of what has happened in two state systems. These states have used two ways to approach the use of the UI system for taxing that minimize the effect on employers and, at the same time, secure supplemental funds for retraining.

The first approach applies to debtor states (about half the states) where a federal payroll tax is in effect to force repayment of loans made to the state. At the time the loan is paid off, an earmarked training tax could be levied in an amount less than the special tax employers have been paying because of the loan, resulting in a net tax reduction. This was the approach used over a year ago by the state of Delaware.

Delaware was about to complete repayment of its Federal loan, late in 1984. The special tax on employers for this purpose was .6 percent of the first \$7,000 of wages, generating \$9 million annually. The DuPont administration proposed legislation which would earmark a portion of this reduction, .1 percent, to establish a permanent \$1.5 million training fund. According to Dennis Carey, then the Secretary of Labor for Delaware, "The Delaware Private Industry Council, Inc. would be responsible for the selection of recipients of grants to assure appropriate use of the funds. These funds would increase the total

number of dollars available for Private Industry Council use by 32 percent."¹⁴ The funds would be used, Carey said, to help support three employment and training initiatives: 1) school-to-work transitions, 2) industrial training, and 3) dislocated workers. In the third area, the funds would be used as matching funds under the Federal Job Training Partnership Act. The proposal was enacted by the Delaware legislature.

California's unemployment insurance finances have been in good shape. In 1982, California earmarked a portion of revenues collected through unemployment insurance for retraining. The law stated its purpose as follows:

(C) Under existing law, all employer taxes paid into the unemployment insurance system compensate unemployment insurance recipients for being out of work. The intent of this chapter is to use a small portion of employer taxes to put unemployment insurance recipients to work by encouraging employers to locate and expand facilities in this state and training unemployment insurance recipients in skills needed by employers.

(D) The purpose of this chapter is to establish an employment training program which shall foster job creation, minimize employers' unemployment costs, and meet employers' needs for skilled workers by providing skills training to unemployment insurance claimants, recent exhaustees of unemployment insurance who have remained unemployed, and potentially displaced workers who would otherwise become unemployment insurance claimants....

The legislation created an Unemployment Training Fund, placing \$55 million in the Fund. Appropriations are made from the Fund, and the law spells out a detailed program for which the funds are to be used.

Administration of the program is through an Employment Training Panel established in the California Employment Development Department, consisting of seven persons "with experience and a demonstrated interest in business

¹⁴ Speech by Dennis C. Carey, before the Delaware Chamber of Commerce, April 11, 1984.

management and employment relations." Two members are appointed by the Speaker of the Assembly, two are appointed by the President pro Tempore of the Senate, and three members are appointed by the Governor.

One unique feature ties the unemployment insurance system to the funding of training which employers need for growth. While direct expenditures can be made from the Fund, offsetting credits can be applied to the employers' unemployment insurance tax liability:

The funding of individual project grants by the panel may take the form of either direct grants to the employer or training agency, or credits to the employer's liability for unemployment insurance contributions or reimbursements. Credits to the employer's liability for unemployment insurance contributions or reimbursements shall be drawn from the Employment Training Fund.

Where unemployment insurance recipients are involved, the legislation ties back to the UI provision required in state law by the 1970 Federal amendments:

A trainee or employee participating in a training program pursuant to this chapter shall be considered to be in a training program having the approval of the director under the provisions of Section 1274.1 of the Unemployment Insurance Code.

The California and Delaware programs are the most extensive integrations of unemployment insurance and retraining undertaken in the United States to date.

B. Retraining Risk Protection

Over the past three years there has been considerable discussion of, and writing about, the need to have an assured and systematic way of enabling workers whose skills become obsolete to be retooled. Most of the thinking that has been done about this, in recent years, has been by Pat Choate of TRW in his proposals for an Individual Training Account (ITA), modeled on the Individual Retirement Account (IRA). While this concept has been modified and refined from time to time, the basic proposition is that an account be established for each worker, into which employers and workers would make fixed contributions, similar

to the Social Security System. When workers become displaced they could draw on this account for the education and training they need. If they don't use the account, the funds go to the workers upon retirement. While the idea has been attractive to many, it has not advanced in the legislature. The cost of building these accounts for all workers is in the billions of dollars, depending on how universal it is to be and how high the contributions would be set.

A principal reason such a system is so costly is that education and training would be funded for all workers, even though only a portion would be displaced, and only a portion of those would want or need retraining. In contrast, the cost of contributions to a system that would insure against the risk of becoming displaced and needing retraining would be relatively modest. While estimates vary, only a fraction of those who become unemployed need (or would avail themselves of) retraining.¹⁵ For purposes of discussion, I will call this Retraining Risk Protection (RRP), although I am here advancing a concept for further explanation rather than a fully developed proposal.

No one, to our knowledge, has made estimates of what percent of payroll would be required to provide such protection. It is probably a fraction of a percent. And, of course, to make such an estimate many assumptions would have to be made about the exact nature of such a program, as well as estimates of displacement, re-employment, and appropriateness of the re-training solution.

There is always legitimate fear that costs of such social insurance programs would get out of control. The maximum amount of each worker's retraining expenditure can be determined and fixed. Unlike many other such programs, there is one characteristic of retraining that would tend to hold down expenditures; unemployed workers tend to see training as a last resort. For the

¹⁵ Of course, other efforts to become re-employed may cost money and could be included in a broader concept of occupational re-adjustment costs.

great majority, going back to school is painful. The general experience (from tuition-aid and other adult education programs) is that the lower the level of formal education, the less the likelihood that workers will choose to exercise training and education options.

The knowledge that such protection is available could do a lot, however, to ease fears of the technological changes, structural shifts, and trade policies that cause worker displacement. While Americans generally accept the need for such changes, acceptance will become more complete as individual workers know that they will not bear the total costs of changes that are in the interest of society as a whole. And once a structure is in place to provide retraining, its use can be encouraged, calling upon a great deal of work that has been done to identify barriers and reduce resistance.

The general outlines of a Retraining Risk Protection program might be along the following lines.

1. Employers and workers would pay a percentage of earnings into a separate state RRP fund.
2. The UI system could be used for collection of contributions to reduce costs of separate collection, but funds would go into a separate state fund.
3. Workers would become eligible for withdrawals when they were determined to be displaced without reasonable prospects for re-employment without retraining or further education (e.g. by methods described in Section V) and:
 - a. when they had worked a specified period of time to demonstrate that they were strongly attached to the workforce,
 - b. when they were to be enrolled in institutions of training and education approved by the state, and

- c. when the course of instruction selected was determined to provide reasonable prospects of re-employment in view of the occupational employment trends in the labor market.

This broad outline leaves a great many details that would have to be worked out. However, it is the general principle that, I believe, merits discussion. To carry it further would require one of the states, or some organization, to make a feasibility assessment. With the considerable interest that is building at the national level in the problem of worker displacement, the concept of Retraining Risk Protection merits examination at the Federal level as well.